



**REPORT OF THE AUDITOR OF PUBLIC ACCOUNTS
AUDIT EXAMINATION OF THE
PULASKI COUNTY FISCAL COURT**

Fiscal Year Ended June 30, 2001

**EDWARD B. HATCHETT, JR.
AUDITOR OF PUBLIC ACCOUNTS
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EXECUTIVE SUMMARY

AUDIT EXAMINATION OF THE PULASKI COUNTY FISCAL COURT

Fiscal Year Ended June 30, 2001

The Auditor of Public Accounts has completed the Pulaski County Fiscal Court audit for fiscal year ended June 30, 2001. We have issued an unqualified opinion on the financial statements taken as a whole. Based upon the audit work performed, the financial statements are presented fairly in all material respects.

Financial Condition:

Cash balances increased by \$681,199 from the beginning of the year, resulting in a cash surplus of \$3,320,110 as of June 30, 2001.

Debt Obligations:

Total bonded debt principal as of June 30, 2001, was \$1,005,000. Future collections of \$1,035,284 are needed over the next 7 years to pay all bonded debt principal and interest.

The County was committed to a capital lease agreement with Kentucky Association of Counties Leasing Trust Program for the purchase of fire equipment, land, and the construction of a three bay fire station. As of June 30, 2001 the outstanding principal balance totaled \$1,048,497. Future principal and interest payments of \$1,288,226 are needed to meet this obligation.

On March 21, 2000, the Pulaski County Fiscal Court issued \$935,000 of Kentucky General Obligation Public Purpose Notes in order to fund the judgment rendered against the fiscal court for the 1994 improper firing of county employees. The principal on these notes was \$720,000 as of June 30, 2001. Future principal and interest payments of \$801,732 are needed to meet this obligation.

Long-Term Notes Receivable:

The outstanding principal balance of the note receivable due from Somerset Food Services as a result of a Community Development Block Grant Loan was \$405,428. Somerset Food Services was in substantial compliance with the terms of the loan agreement.

The outstanding principal balance of the note receivable due from Somerset Recycling as a result of a Community Development Block Grant Loan was \$94,094. Somerset Recycling was in substantial compliance with the terms of the loan agreement.

Report Comment:

- The County Should Have Required Depository Institutions To Pledge Or Provide Additional Collateral Of \$150,628 To Protect Deposits

<u>CONTENTS</u>	<u>PAGE</u>
INDEPENDENT AUDITOR’S REPORT	1
PULASKI COUNTY OFFICIALS	3
STATEMENT OF ASSETS, LIABILITIES, AND FUND BALANCES ARISING FROM CASH TRANSACTIONS	7
STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND CHANGES IN CASH BALANCES	12
NOTES TO FINANCIAL STATEMENTS	14
SUPPORTING SCHEDULES:	
COMPARATIVE SCHEDULE OF BUDGETED TO ACTUAL OPERATING REVENUE	25
SCHEDULE OF OPERATING REVENUE	29
COMPARATIVE SCHEDULE OF FINAL BUDGET AND BUDGETED EXPENDITURES	32
REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS	37
COMMENT AND RECOMMENDATION	41
APPENDIX A:	
CERTIFICATION OF COMPLIANCE - LOCAL GOVERNMENT ECONOMIC ASSISTANCE AND DEVELOPMENT PROGRAMS	
APPENDIX B:	
SOMERSET-PULASKI COUNTY DEVELOPMENT FOUNDATION, INC.	



EDWARD B. HATCHETT, JR.
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky

Honorable Paul E. Patton, Governor

T. Kevin Flanery, Secretary

Finance and Administration Cabinet

Dana Mayton, Secretary, Revenue Cabinet

Honorable Darrell BeShears, Pulaski County Judge/Executive

Members of the Pulaski County Fiscal Court

Independent Auditor's Report

We have audited the accompanying statement of assets, liabilities, and fund balances arising from cash transactions of Pulaski County, Kentucky, as of June 30, 2001, and the related statement of cash receipts, cash disbursements, and changes in cash balances for the year then ended. These financial statements are the responsibility of the Pulaski County Fiscal Court. Our responsibility is to express an opinion on these financial statements based on our audit. We did not audit the financial statements of the Somerset-Pulaski County Development Foundation, Inc. Those financial statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for the Somerset-Pulaski County Development Foundation, Inc., is based on the report of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Fiscal Court Audits issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, Pulaski County, Kentucky, prepares its financial statements on a prescribed basis of accounting that demonstrates compliance with the modified cash basis and laws of Kentucky, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. The modified cash basis accounting system does not require an entity to maintain a general fixed asset group or a general long-term debt group of accounts.

In our opinion, based on our audit and the report of other auditors, the accompanying financial statements referred to above present fairly, in all material respects, the assets, liabilities, and fund balances arising primarily from cash transactions as of June 30, 2001 of Pulaski County, Kentucky, and the revenues received and expenditures paid for the year then ended, in conformity with the modified cash basis of accounting.

To the People of Kentucky
Honorable Paul E. Patton, Governor
T. Kevin Flanery, Secretary
Finance and Administration Cabinet
Dana Mayton, Secretary, Revenue Cabinet
Honorable Darrell BeShears, Pulaski County Judge/Executive
Members of the Pulaski County Fiscal Court

In accordance with Government Auditing Standards, we have also issued our report dated June 7, 2002 on our consideration of Pulaski County, Kentucky's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

The accompanying financial information listed as supporting schedules in the table of contents is presented for purposes of additional analysis and is not a required part of the financial statements of Pulaski County, Kentucky. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

Based on the results of our audit, we present the accompanying comment and recommendation, included herein, which discusses the following report comment:

- The County Should Have Required Depository Institutions To Pledge Or Provide Additional Collateral of \$150,628 To Protect Deposits

Respectfully submitted,



Edward B. Hatchett, Jr.
Auditor of Public Accounts

Audit fieldwork completed -
June 7, 2002

PULASKI COUNTY OFFICIALS

Fiscal Year Ended June 30, 2001

Fiscal Court Members:

Darrell BeShears	County Judge/Executive
Darrell Wilson	Magistrate
Howard Hansford	Magistrate
James Cothran	Magistrate
Ralph Troxtell	Magistrate
Keneth Isaacs	Magistrate
Mike New	Magistrate
James Girdler	Magistrate

Other Elected Officials:

William Thompson	County Attorney
Darrell Presley	Jailer
Willard Hansford	County Clerk
George Flynn	Circuit Court Clerk
Jim McWhorter	Sheriff
T. W. Todd	Property Valuation Administrator
Alan Stringer	Coroner

Appointed Personnel:

Arlene Phelps	County Treasurer
Lorie Hines	Occupational Tax Collector
Ethel VanHook	Finance Officer

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STATEMENT OF ASSETS, LIABILITIES,
AND FUND BALANCES ARISING FROM CASH TRANSACTIONS

PULASKI COUNTY
STATEMENT OF ASSETS, LIABILITIES,
AND FUND BALANCES ARISING FROM CASH TRANSACTIONS

June 30, 2001

Assets

General Fund Type

General Fund:

Cash	\$	353,182
Judgment Receivable (Note 9)		4,631

Road and Bridge Fund:

Cash		145,263
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Jail Fund:

Cash		87,804
Due From General Fund		3,785

Local Government Economic Assistance Fund:

Cash		31,370
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Industrial Development Fund:

Cash		1,230,396
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911 Fund:

Cash		244,503
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Economic Development Fund:

Cash		289,889
Long Term Receivable (Note 4A)		405,428
Long Term Receivable (Note 4B)		94,094

Occupational Tax Fund:

Cash		132,663
------	--	---------

Revolving Payroll Account - Cash

73,258

Insurance Reimbursement Account - Cash

	<u>12,741</u>	\$ 3,109,007
--	---------------	--------------

Special Revenue Fund Type

Fire Protection Fund:

Cash		626,214
------	--	---------

Debt Service Fund Type

Detention Center Corporation Bond Fund:

1996 Reserve Account - Cash		178,825
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The accompanying notes are an integral part of the financial statements.

PULASKI COUNTY
 STATEMENT OF ASSETS, LIABILITIES, AND FUND BALANCES
 ARISING FROM CASH TRANSACTIONS
 June 30, 2001
 (Continued)

Assets and Other Resources (Continued)

Other Resources

General Fund Type

General Fund:

Amounts to be Provided in Future Years for General Obligation Public Purpose Notes - Principal (Note 6B)	\$ 720,000
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Special Revenue Fund Type

Fire Protection Fund:

Amounts to be Provided in Future Years for KACO Leasing Trust Principal Payments (Note 7)	1,048,497
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Debt Service Fund Type

Detention Center Corporation Bond Fund:

Amounts to be Provided in Future Years for Bond Principal Payments	826,175
--	---------

Total Assets and Other Resources	<u>\$ 6,508,718</u>
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Liabilities and Fund Balances

Liabilities

General Fund Type

General Fund:

Due to Jail Fund	\$ 3,785	
General Obligation Public Purpose Notes - Principal (Note 6B)	720,000	
Economic Development Fund:		
Deferred Revenue (Note 4A)	405,428	
Deferred Revenue (Note 4B)	94,094	
Revolving Payroll Account	73,258	
Insurance Reimbursement Account	<u>12,741</u>	\$ 1,309,306

The accompanying notes are an integral part of the financial statements.

PULASKI COUNTY
 STATEMENT OF ASSETS, LIABILITIES, AND FUND BALANCES
 ARISING FROM CASH TRANSACTIONS
 June 30, 2001
 (Continued)

Liabilities and Fund Balances (Continued)

Liabilities (Continued)

Special Revenue Fund Type

Fire Protection Fund:

KACO Leasing Trust Principal Payments (Note 7)	\$ 1,048,497
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Debt Service Fund Type

Detention Center Corporation Bond Fund:

Bond Principal Not Matured (Note 6A)	1,005,000
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Fund Balances

Reserved:

General Fund Type

Industrial Development Fund	\$ 1,230,396	
911 Fund	244,503	
Economic Development Fund	289,889	
Occupational Tax Fund	<u>132,663</u>	1,897,451

Special Fund Type

Fire Protection Fund	626,214
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Unreserved:

General Fund Type

General Fund	\$ 354,028	
Road and Bridge Fund	145,263	
Jail Fund	91,589	
Local Government Economic Assistance Fund	<u>31,370</u>	<u>622,250</u>

Total Liabilities and Fund Balances	<u><u>\$ 6,508,718</u></u>
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The accompanying notes are an integral part of the financial statements.

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STATEMENT OF CASH RECEIPTS,
CASH DISBURSEMENTS, AND CHANGES IN CASH BALANCES

PULASKI COUNTY
STATEMENT OF CASH RECEIPTS,
CASH DISBURSEMENTS, AND CHANGES IN CASH BALANCES

Fiscal Year Ended June 30, 2001

	General Fund Type			
	Totals (Memorandum Only)	General Fund	Road and Bridge Fund	Jail Fund
<u>Cash Receipts</u>				
Schedule of Operating Revenue	\$ 16,463,362	\$ 3,368,059	\$ 2,722,148	\$ 1,705,577
Transfers In	6,952,542	3,455,516	1,359,752	100,000
Kentucky Advance Revenue Program	3,599,200	3,459,400	139,800	
Lease-Purchase Proceeds	1,100,000			
Total Cash Receipts	<u>\$ 28,115,104</u>	<u>\$ 10,282,975</u>	<u>\$ 4,221,700</u>	<u>\$ 1,805,577</u>
<u>Cash Disbursements</u>				
Comparative Schedule of Final Budget and Budgeted Expenditures	\$ 15,287,163	\$ 6,639,889	\$ 4,155,109	\$ 1,741,561
Fire Project	808,553			
General Obligation Public Purpose				
Notes - Principal	215,000	215,000		
Transfers Out	6,952,542	250,000		176,945
Bonds:				
Principal Paid	100,000			
Interest Paid	51,695			
Bond Fees	250			
Kentucky Advance Revenue Program				
Repaid	3,599,200	3,459,400	139,800	
KACO Leasing Trust -				
Equipment Lease	368,000			
Fire Project Lease	51,503			
Total Cash Disbursements	<u>\$ 27,433,906</u>	<u>\$ 10,564,289</u>	<u>\$ 4,294,909</u>	<u>\$ 1,918,506</u>
Excess (Deficiency) of Cash Receipts Over (Under) Cash Disbursements	\$ 681,198	\$ (281,314)	\$ (73,209)	\$ (112,929)
Cash Balance - July 1, 2000	2,638,911	634,496	218,472	200,733
Cash Balance - June 30, 2001	<u>\$ 3,320,109</u>	<u>\$ 353,182</u>	<u>\$ 145,263</u>	<u>\$ 87,804</u>

The accompanying notes are an integral part of the financial statements.

PULASKI COUNTY
STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND
CHANGES IN CASH BALANCES
Fiscal Year Ended June 30, 2001
(Continued)

General Fund Type					Special Revenue Fund Type	Debt Service Fund Type
Local Government Economic Assistance Fund	Industrial Development Fund	911 Fund	Economic Development Fund	Occupational Tax Fund	Fire Protection Fund	Detention Center Corporation Bond Fund
\$ 408,532	\$ 18,540 1,056,501	\$ 63,627 828,828	\$ 79,455	\$ 6,449,657	\$ 1,638,193	\$ 9,574 151,945
					1,100,000	
<u>\$ 408,532</u>	<u>\$ 1,075,041</u>	<u>\$ 892,455</u>	<u>\$ 79,455</u>	<u>\$ 6,449,657</u>	<u>\$ 2,738,193</u>	<u>\$ 161,519</u>
 \$ 463,004	 \$ 262,040	 \$ 786,761	 \$	 \$	 \$ 1,238,799 808,553	 \$
	150,000			6,375,597		
						100,000 51,695 250
					368,000 51,503	
<u>\$ 463,004</u>	<u>\$ 412,040</u>	<u>\$ 786,761</u>	<u>\$ 0</u>	<u>\$ 6,375,597</u>	<u>\$ 2,466,855</u>	<u>\$ 151,945</u>
 \$ (54,472) 85,842	 \$ 663,001 567,395	 \$ 105,694 138,809	 \$ 79,455 210,434	 \$ 74,060 58,603	 \$ 271,338 354,876	 \$ 9,574 169,251
<u>\$ 31,370</u>	<u>\$ 1,230,396</u>	<u>\$ 244,503</u>	<u>\$ 289,889</u>	<u>\$ 132,663</u>	<u>\$ 626,214</u>	<u>\$ 178,825</u>

The accompanying notes are an integral part of the financial statements.

PULASKI COUNTY
NOTES TO FINANCIAL STATEMENTS

June 30, 2001

Note 1. Summary of Significant Accounting Policies

A. Reporting Entity

The financial statements of Pulaski County include the funds, agencies, boards, and entities for which the fiscal court is financially accountable. Financial accountability, as defined by Section 2100 of the GASB Codification of Governmental Accounting and Financial Reporting Standards, as amended by GASB 14, was determined on the basis of the government's ability to significantly influence operations, select the governing authority, participate in fiscal management and the scope of public service. Based upon the criteria stated in GASB 14, management has included the Pulaski County Public Properties Corporation and the Somerset-Pulaski County Development Foundation, Inc. as part of the reporting entity.

Pulaski County Public Properties Corporation

Fiscal Court has the authority to appoint a voting majority of the Public Properties Corporation's (PPC) Board of Directors. Fiscal Court also has the ability to approve or modify the PPC's budget, approve or modify rate or fee changes affecting revenues, veto, overrule, or modify decisions of the Board of Directors, or otherwise impose its will on the PPC. In addition, Fiscal Court is financially accountable for the PPC: legally entitled to the PPC's resources as well as legally obligated for the PPC's debt. Financial information for the Public Properties Corporation is blended within the county's financial statements.

Somerset-Pulaski County Development Foundation, Inc.

The fiscal court's occupational tax ordinance states that a percentage of the collections are to be used for the Somerset-Pulaski County Development Foundation, Inc. (Foundation). The fiscal court retains the tax revenues collected for the Foundation, approves the expenditures, and pays related expenses. These revenues and expenditures are blended with the fiscal court's financial statements.

The Foundation assists with the administration of occupational tax revenues through the Pulaski County Fiscal Court, and administers an industrial revolving loan fund to carry out its purpose of recruitment and development of industry. Financial information for these revenues and expenditures are presented in the audit report of the Somerset-Pulaski County Development Foundation, Inc., included in Appendix B.

Additional - Pulaski County Constitutional Elected Officials

- Circuit Court Clerk
- County Attorney
- County Clerk
- County Sheriff
- Property Valuation Administrator

The Kentucky constitution provides for election of the above officials from the geographic area constituting Pulaski County. Pursuant to state statute, these officials perform various services for the Commonwealth of Kentucky, its judicial courts, the fiscal court, various cities and special districts within the county, and the board of education. In exercising these responsibilities, however, they are required to comply with state laws. Audits of their financial statements are issued separately and individually and can be obtained from their respective administrative offices.

PULASKI COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2001
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

B. Fund Accounting

Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities. The government uses funds to report on its financial position and the results of its operations. A fund is a separate accounting entity with a self-balancing set of accounts. Pulaski County Fiscal Court's Fund Types, a definition of each, and county funds included within each fund type are listed below.

1) General Fund Type

General Fund Type accounts for all financial resources except those required to be accounted for in another fund type. The Pulaski County General Fund Type includes the following county funds: General Fund, Road and Bridge Fund, Jail Fund, Local Government Economic Assistance Fund, Industrial Development Fund, 911 Fund, Economic Development Fund, and Occupational Tax Fund.

2) Special Revenue Fund Type

Special Revenue Fund Type accounts for the proceeds of specific revenue sources that are legally restricted to expenditures for the specified purpose. The Fire Protection Fund of the Fiscal Court is reported as a Special Revenue Fund Type.

3) Debt Service Fund Type

Debt Service Fund Type accounts for the accumulation of resources for the payment of general long-term debt principal and interest and includes funds for the Pulaski Public Properties Corporation - Detention Center Corporation Bond Fund. Debt service is provided through annual transfers from the General Fund Type in the amount of the debt service requirements for the year.

C. Basis of Accounting

For all fund types, the county utilizes a modified cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this basis of accounting, assets, liabilities, and related revenues and expenditures are recorded when they result from cash transactions, with a few exceptions. This modified cash basis recognizes revenues when received, except for the recording of long-term receivables and deferred revenue. Expenditures are recognized when paid, except for the recording of long-term obligations and amounts to be provided in future years.

PULASKI COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2001
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

D. Legal Compliance - Budget

The Pulaski County budget is adopted on a cash basis of accounting and according to the laws of Kentucky as required by the State Local Finance Officer. The County Judge/Executive is required to submit estimated receipts and proposed expenditures to the fiscal court by May 1 of each year. The budget is prepared by fund, function, and activity and is required to be adopted by the fiscal court by July 1.

The fiscal court may change the original budget by transferring appropriations at the activity level; however, the fiscal court may not increase the total budget without approval by the State Local Finance Officer. Expenditures may not exceed budgeted appropriations at the activity level.

Formal budgets are not adopted for the Detention Center Corporation Bond Fund (Debt Service Fund) because bond indentures and other relevant contractual provisions require specific payments to and from this fund annually and transfers are budgeted in the General Fund Type to comply with these requirements. The Department for Local Government does not require this fund to be budgeted.

E. Cash and Investments

Cash includes amounts in bank accounts, and investments are stated at cost. Investments may include certificates of deposit on the financial statements; however, for the purpose of disclosing credit risk (Note 3), investments exclude certificates of deposit.

KRS 66.480 authorizes the county to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

F. Related Organizations

A related organization is an entity for which a primary government is not financially accountable. It does not impose will or have a financial benefit or burden relationship, even if the primary government appoints a voting majority of the related organization's governing board. Based on these criteria, the following are considered related organizations of Pulaski County Fiscal Court: South Eastern Water District and Western Pulaski County Water District.

PULASKI COUNTY
 NOTES TO FINANCIAL STATEMENTS
 June 30, 2001
 (Continued)

Note 2. Employee Retirement System

The county has elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a multiple-employer public retirement system which covers all eligible full-time employees. Benefit contributions and provisions are established by statute. Nonhazardous covered employees are required to contribute 5 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 7.17 percent. Hazardous covered employees are required to contribute 7 percent of their salary to the plan. The county's contribution rate for hazardous employees was 16.78 percent.

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65. Aspects of benefits for hazardous employees include retirement after 20 years of service or age 55.

Historical trend information showing the CERS' progress in accumulating sufficient assets to pay benefits when due is present in the Kentucky Retirement Systems' annual financial report.

Note 3. Deposits

The county maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the county and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. The county entered into a written agreement with the depository institution and met requirements (a), (b), and (c) stated above. However, as of August 31, 2000, the collateral and FDIC insurance together did not equal or exceed the amount on deposit, leaving \$150,628 of public funds uninsured and unsecured.

The county's deposits are categorized below to give an indication of the level of risk assumed by the county as of August 31, 2000.

	<u>Bank Balance</u>
Collateralized with securities held by the county's agent in the county's name	\$ 3,563,252
FDIC Insured	300,000
Uncollateralized and uninsured	<u>150,628</u>
Total	<u><u>\$ 4,013,880</u></u>

PULASKI COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2001
(Continued)

Note 4. Long Term Receivables

- A. In April 1993, Pulaski County loaned Somerset Food Services the proceeds from a Community Development Block Grant in the amount of \$317,532 plus an additional \$200,000. This loan was for a period of twenty (20) years at 3 percent interest, with 20 annual payments in the amount of \$21,307 for the first five years and \$38,061 for the remaining 15 years. As of June 30, 2001, Somerset Food Services was in substantial compliance with the terms of the loan agreement.

Principal Balance Due June 30, 2001 \$405,428

- B. On December 15, 1997, Pulaski County passed through Community Development Block Grant (CDBG) funds in the amount of \$99,900 to the Somerset-Pulaski County Development Foundation, Inc., which were loaned to Somerset Recycling. On June 15, 1998, an additional \$61,038 of CDBG funds was loaned to Somerset Recycling. The combined loan repayment schedule was for a period of 7 years at 5.641 percent interest, with monthly payments of \$2,403. As of June 30, 2001, Somerset Recycling was in substantial compliance with the terms of the loan agreement.

Principal Balance Due at June 30, 2001 \$94,094

Note 5. Operating Leases

Description	Purchase Date	Maturity Date	Interest Rate	Amount
Road Equipment	11/24/1997	1/20/2002	Variable	\$ 33,000
Copiers	5/30/1998	8/30/2002	Variable	6,538
Voting Machines	9/3/1999	8/30/2002	Variable	101,803
Road Equipment	9/7/1999	9/20/2004	Variable	222,050
Road Equipment	12/18/2000	11/18/2005	Variable	96,454
Ford Explorer SUV	4/2/2001	4/2/2004	Variable	33,271
Road Equipment	6/15/2001	5/15/2006	Variable	50,729

PULASKI COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2001
(Continued)

Note 6. Long-Term Debt

A. 1996 Revenue Bonds

On October 1, 1996, the Pulaski County Detention Center Corporation Bond Fund issued \$1,415,000 of Revenue Bonds for the purpose of defeasing the 1988 Bond Series Issue. The 1988 bonds were originally issued to finance and equip the Pulaski County Detention Center. The Refunding Bonds were dated October 1, 1996, with the requirement that two semiannual interest payments be made on January 1 and July 1 of each year commencing January 1, 1997. One principal payment will be due on July 1 of each year, commencing January 1, 1997. Bonds will mature July 1, 2008. As of June 30, 2001 the principal amount outstanding was \$1,005,000.

<u>Fiscal Year Ending</u>	<u>Interest</u>	<u>Principal</u>
June 30, 2002	\$ 46,673	\$ 105,000
June 30, 2003	41,405	110,000
June 30, 2004	35,893	115,000
June 30, 2005	30,013	125,000
June 30, 2006	23,765	130,000
June 30, 2007-2008	31,360	420,000
Totals	<u>\$ 209,109</u>	<u>\$ 1,005,000</u>

B. Civil Action Judgment

In November 1995, a civil action judgment was rendered against the Pulaski County Fiscal Court for improperly firing employees. The judgment was for \$466,000, plus attorney fees and costs. This matter was appealed to the United States Sixth Circuit Court of Appeals. On December 21, 1999, the United States Sixth Circuit Court of Appeals upheld the judgment rendered. As a result of this decision, Pulaski County agreed to pay a total judgment amount of \$951,384, which includes the original judgment amount, lost wages, interest, and retirement.

PULASKI COUNTY
 NOTES TO FINANCIAL STATEMENTS
 June 30, 2001
 (Continued)

Note 6. Long-Term Debt

B. Civil Action Judgment (Continued)

In order to fund this judgment expense, the fiscal court paid \$16,384 out of the General Fund and issued \$935,000 of Kentucky General Obligation Public Purpose Notes Series 2000 at 5.56% interest. These notes were dated March 1, 2000, with the requirement that two semiannual interest payments be made on September 1 and March 1 of each year, commencing September 1, 2000. One principal payment will be due on March 1 of each year, commencing September 1, 2000. Notes will mature in March 2004. As of June 30, 2001 the principal amount outstanding was \$720,00.

<u>Fiscal Year Ending</u>	<u>Interest</u>	<u>Principal</u>
June 30, 2002	\$ 40,032	\$ 225,000
June 30, 2003	27,522	240,000
June 30, 2004	<u>14,178</u>	<u>255,000</u>
Totals	<u>\$ 81,732</u>	<u>\$ 720,000</u>

Note 7. Lease Purchase Agreement

In November 2000, the county entered into a capital lease-purchase agreement with Kentucky Association of Counties Leasing Trust Program for the purchase of fire equipment, land, and the construction of a three bay fire station. Terms of the agreement stipulate a ten-year repayment schedule with variable interest payments and variable annual principal payments. As of June 30, 2001, the principal balance was \$1,048,497.

<u>Fiscal Year Ending</u>	<u>Interest</u>	<u>Principal</u>
June 30, 2002	\$ 45,311	\$ 91,492
June 30, 2003	41,107	95,695
June 30, 2004	36,711	100,091
June 30, 2005	32,113	104,690
June 30, 2006	27,304	109,499
June 30, 2007-2010	<u>57,183</u>	<u>547,030</u>
Totals	<u>\$ 239,729</u>	<u>\$ 1,048,497</u>

PULASKI COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2001
(Continued)

Note 8. Civil Lawsuit

There was a Civil Action filed against the magistrates of Pulaski County because of a pay raise the magistrates granted themselves. The judge ruled that the magistrates were to reimburse the county. As of June 30, 2001, the magistrates had paid a total of \$204,608 to the Circuit Court Clerk's office. This sum had earned interest of \$8,340 making a total of \$212,608 to be disbursed. Of that amount, Pulaski County received a total of \$182,616 during the fiscal year ended June 30, 2001. As of June 30, 2001, one of the magistrates owed an additional \$4,631, including accumulated interest, to the fiscal court. This amount was subsequently paid.

Note 9. Jail Canteen Fund

The canteen operations are authorized pursuant to KRS 441.135(1), which allows the jailer to sell snacks, sodas, and other items to inmates. The profits generated from the sale of those items are to be used for the benefit or recreation of the inmates. KRS 441.135(2) requires the jailer to maintain accounting records and report annually to the county treasurer the receipts and disbursements of the Jail Canteen. Technical Audit Bulletin 93-002 provides additional accounting and expenditure guidance for acceptable jail canteen operations.

The Pulaski County Jail Canteen Fund had income of \$273,36, less cost of goods sold of \$271,234, leaving net income at \$2,002 as of June 30, 2001. All profit expenditures were for the benefit and/or recreation of the inmates. The Jail Canteen reported an ending balance of \$83,709 as of June 30, 2001.

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COMPARATIVE SCHEDULE OF
BUDGETED TO ACTUAL OPERATING REVENUE

PULASKI COUNTY
COMPARATIVE SCHEDULE OF
BUDGETED TO ACTUAL OPERATING REVENUE

Fiscal Year Ended June 30, 2001

Budgeted Funds	Budgeted Operating Revenue	Actual Operating Revenue	Over (Under) Budget
<u>General Fund Type</u>			
General Fund	\$ 7,708,840	\$ 3,368,059	\$ (4,340,781)
Road and Bridge Fund	4,264,686	2,722,148	(1,542,538)
Jail Fund	1,551,318	1,705,577	154,259
Local Government Economic Assistance Fund	419,800	408,532	(11,268)
Industrial Development Fund	820,000	18,540	(801,460)
911 Fund	800,502	63,627	(736,875)
Economic Development Fund	43,600	79,455	35,855
Occupational Tax Fund		6,449,657	6,449,657
<u>Special Revenue Fund Type</u>			
Fire Protection Fund	1,551,000	1,638,193	87,193
Totals	<u>\$ 17,159,746</u>	<u>\$ 16,453,788</u>	<u>\$ (705,958)</u>
<u>Reconciliation</u>			
Total Budgeted Operating Revenue Above			\$ 17,159,746
Add: Budgeted Prior Year Surplus			2,462,985
Budgeted Lease Proceeds			87,300
Kentucky Advanced Revenue Program			3,573,900
Less: Transfers to Detention Center			
Corporation Bond Fund-			
Principal			(100,000)
Interest			(51,695)
Bond Fees			(250)
KACO Leasing Trust Equipment Lease-			
Principal			(189,000)
KACO Leasing Trust Fire Project Lease-			
Principal			(223,020)
Kentucky Advanced Revenue Program			(3,599,300)
Kentucky General Obligation Public			
Purpose Notes Series 2000-			
Principal			(215,000)
Total Operating Budget Per Comparative Schedule			
Of Final Budget and Budgeted Expenditures			<u>\$ 18,905,666</u>

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SCHEDULE OF OPERATING REVENUE

PULASKI COUNTY
SCHEDULE OF OPERATING REVENUE

Fiscal Year Ended June 30, 2001

Revenue Categories	GOVERNMENTAL FUND TYPES			
	Totals (Memorandum Only)	General Fund Type	Special Revenue Fund Type	Debt Service Fund Type
Taxes	\$ 9,329,597	\$ 8,017,913	\$ 1,311,684	\$
In Lieu Tax Payments	153,815	153,815		
Excess Fees	521,542	521,542		
Licenses and Permits	113,024	113,024		
Intergovernmental Revenues	5,368,208	5,131,127	237,081	
Charges for Services	134,998	134,998		
Miscellaneous Revenues	580,316	512,371	67,945	
Interest Earned	261,862	230,805	21,483	9,574
Total Operating Revenue	<u>\$ 16,463,362</u>	<u>\$ 14,815,595</u>	<u>\$ 1,638,193</u>	<u>\$ 9,574</u>

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COMPARATIVE SCHEDULE OF
FINAL BUDGET AND BUDGETED EXPENDITURES

PULASKI COUNTY
COMPARATIVE SCHEDULE OF
FINAL BUDGET AND BUDGETED EXPENDITURES

Fiscal Year Ended June 30, 2001

Expenditure Categories	GENERAL FUND TYPE		
	Final Budget	Budgeted Expenditures	Under (Over) Budget
General Government	\$ 2,665,248	\$ 2,237,404	\$ 427,844
Protection to Persons and Property	3,052,611	3,001,849	50,762
General Health and Sanitation	1,276,275	612,288	663,987
Social Services	39,880	28,980	10,900
Recreation and Culture	490,685	405,968	84,717
Roads	4,581,231	4,058,542	522,689
Airports	23,000	23,000	
Debt Service	671,240	153,892	517,348
Capital Projects	388,155	384,445	3,710
Administration	4,148,161	3,141,996	1,006,165
Total Operating Budget - General Fund Type	\$ 17,336,486	\$ 14,048,364	\$ 3,288,122
Other Financing Uses:			
Transfers to Detention Center			
Corporation Bond Fund-			
Principal	100,000	100,000	
Interest	51,695	51,695	
Administrative Fees	250	250	
Borrowed Money-			
Kentucky Advanced Revenue			
Program - Principal	3,599,300	3,599,200	100
Kentucky General Obligation Public			
Purpose Notes Series 2000-			
Principal	215,000	215,000	
TOTAL BUDGET - GENERAL FUND TYPE	\$ 21,302,731	\$ 18,014,509	\$ 3,288,222

PULASKI COUNTY
 COMPARATIVE SCHEDULE OF
 FINAL BUDGET AND BUDGETED EXPENDITURES
 Fiscal Year Ended June 30, 2001
 (Continued)

Expenditure Categories	SPECIAL REVENUE FUND TYPE		
	Final Budget	Budgeted Expenditures	Under (Over) Budget
Protection to Persons and Property	\$ 715,634	\$ 601,252	\$ 114,382
Debt Service	59,353	38,214	21,139
Capital Projects	582,070	553,698	28,372
Administration	212,123	45,635	166,488
Total Operating Budget - Special Revenue Fund Type	\$ 1,569,180	\$ 1,238,799	\$ 330,381
Other Financing Uses:			
KACO Leasing Trust Equipment Lease- Principal	189,000	368,000	(179,000)
KACO Leasing Trust Fire Project Lease- Principal	223,020	51,503	171,517
TOTAL BUDGET - SPECIAL REVENUE FUND TYPE	<u>\$ 1,981,200</u>	<u>\$ 1,658,302</u>	<u>\$ 322,898</u>

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REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER
FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS



EDWARD B. HATCHETT, JR.
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky

Honorable Paul E. Patton, Governor

T. Kevin Flanery, Secretary

Finance and Administration Cabinet

Dana Mayton, Secretary, Revenue Cabinet

Honorable Darrell BeShears, Pulaski County Judge/Executive

Members of the Pulaski County Fiscal Court

**Report On Compliance And On Internal Control
Over Financial Reporting Based On An Audit Of Financial
Statements Performed In Accordance With Government Auditing Standards**

We have audited the financial statements of Pulaski County, Kentucky, as of and for the year ended June 30, 2001, and have issued our report thereon dated June 7, 2002. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether Pulaski County's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance that is required to be reported under Government Auditing Standards, and which is described in the accompanying comment and recommendation.

- The County Should Have Required Depository Institutions To Pledge Or Provide Additional Collateral Of \$150,628 To Protect Deposits

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Pulaski County's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses.

Report On Compliance And On Internal Control
Over Financial Reporting Based On An Audit Of Financial
Statements Performed In Accordance With Government Auditing Standards
(Continued)

Internal Control Over Financial Reporting (Continued)

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of management and is not intended to be, and should not be, used by anyone other than the specified party.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Ed Hatchett", with a horizontal line extending from the end of the signature.

Edward B. Hatchett, Jr.
Auditor of Public Accounts

Audit fieldwork completed -
June 7, 2002

COMMENT AND RECOMMENDATION

PULASKI COUNTY
COMMENT AND RECOMMENDATION

Fiscal Year Ended June 30, 2001

The County Should Have Required Depository Institutions To Pledge Or Provide Additional Collateral Of \$150,628 To Protect Deposits

On August 31, 2000, \$150,628 of the county's deposits of public funds in depository institutions was uninsured and unsecured. According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with Federal Deposit Insurance Corporation insurance, equals or exceeds the amount of public funds on deposit at all times. We recommend that the county require the depository institution to pledge or provide collateral in an amount sufficient to secure deposits of public funds at all times.

County Judge/Executive Darrell BeShears' Response:

We have informed all banks to increase collateral. We no longer bank with the one in question.

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CERTIFICATION OF COMPLIANCE -
LOCAL GOVERNMENT ECONOMIC ASSISTANCE AND DEVELOPMENT PROGRAMS

PULASKI COUNTY FISCAL COURT

Fiscal Year Ended June 30, 2001

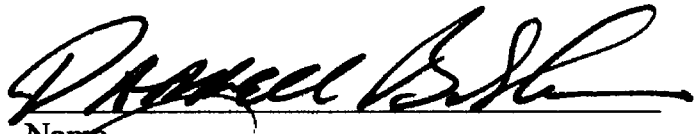
CERTIFICATION OF COMPLIANCE

LOCAL GOVERNMENT ECONOMIC ASSISTANCE AND DEVELOPMENT PROGRAMS

PULASKI COUNTY FISCAL COURT

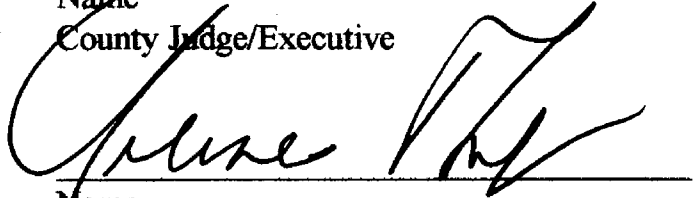
Fiscal Year Ended June 30, 2001

The Pulaski County Fiscal Court hereby certifies that assistance received from the Local Government Economic Development Program and Local Government Economic Assistance Program was expended for the purpose intended as dictated by the applicable Kentucky Revised Statutes.



Name

County Judge/Executive



Name

County Treasurer

SOMERSET-PULASKI COUNTY
DEVELOPMENT FOUNDATION, INC.

Fiscal Year Ended June 30, 2001

**SOMERSET-PULASKI COUNTY
DEVELOPMENT FOUNDATION, INC.**

FINANCIAL STATEMENTS

For the year ended June 30, 2001

**EVANS, HALL
& COMPANY, CPAS**
Progressive accounting for businesses & individuals

116 Tradepark Drive, Suite 1,
P.O. Box 1309 • Somerset, KY 42502

TABLE OF CONTENTS

	<u>Page</u>
Independent Auditors' Report	1
Statement of Financial Position	2
Statement of Activities	3
Statement of Functional Expenses	4
Statement of Cash Flows	5
Notes to the Financial Statements	6

INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
Somerset-Pulaski County Development Foundation, Inc.

We have audited the accompanying statement of financial position of Somerset-Pulaski County Development Foundation, Inc., (a nonprofit organization) as of June 30, 2001, and the related statements of activities, functional expenses and cash flows for the year then ended. These financial statements are the responsibility of the Foundation's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Somerset-Pulaski County Development Foundation, Inc., as of June 30, 2001, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Evans, Hall & Company

October 3, 2001
Somerset, Kentucky

**SOMERSET-PULASKI COUNTY
DEVELOPMENT FOUNDATION, INC.**

Statement of Financial Position

June 30, 2001

Assets

Cash and cash equivalents	\$ 825,696
Interest receivable	7,589
Notes receivable, net	515,065
Speculative building	1,196,359
Property and equipment, net	<u>2,566,683</u>
 Total Assets	 <u>\$ 5,111,392</u>

Liabilities and Net Assets

Liabilities	
Accounts payable	\$ -
Note payable	<u>-</u>
 Total Liabilities	 -
 Net Assets, Unrestricted	 <u>5,111,392</u>
 Total Liabilities and Net Assets	 <u>\$ 5,111,392</u>

See accompanying notes to financial statements

**SOMERSET-PULASKI COUNTY
DEVELOPMENT FOUNDATION, INC.**

Statement of Activities
For the Year Ended June 30, 2001

Unrestricted Net Assets

Revenue and Support

Interest income	\$ 59,086
Miscellaneous income	<u>18,721</u>

Total Revenue and Support	77,807
---------------------------	--------

Expenses

Program Services:

Recruitment, retention and development	13,881
--	--------

Supporting Services:

Management and general	11,230
------------------------	--------

Land and development costs in excess of revenues from property sales and other transfers	<u>62,093</u>
---	---------------

Total Expenses	<u>87,204</u>
----------------	---------------

Total Decrease in Unrestricted Net Assets	(9,397)
---	---------

Unrestricted Net Assets, July 1, 2000	5,165,789
---------------------------------------	-----------

Prior period adjustment	<u>(45,000)</u>
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Unrestricted Net Assets, June 30, 2001	\$ <u><u>5,111,392</u></u>
--	----------------------------

See accompanying notes to financial statements

**SOMERSET-PULASKI COUNTY
DEVELOPMENT FOUNDATION, INC.**

Statement of Functional Expenses
For the Year Ended June 30, 2001

	Program Services Recruitment, Retention & Development	Supporting Services Management & General	Total Expenses
Salaries, wages and benefits	\$ -	\$ -	\$ -
Marketing	13,881	-	13,881
Automobile expenses	-	-	-
Travel	-	-	-
Printing & brochures	-	-	-
Hosting	-	-	-
Other recruitment expenses	-	-	-
Office expenses	-	-	-
Rent	-	-	-
Telephone	-	-	-
Utilities	-	-	-
Cleaning	-	-	-
Professional fees	-	-	-
Insurance	-	5,361	5,361
Licenses & taxes	-	-	-
Bad debt expense	-	-	-
Depreciation	-	5,869	5,869
Miscellaneous expense	-	-	-
Total Expenses	\$ <u>13,881</u>	\$ <u>11,230</u>	\$ <u>25,111</u>

See accompanying notes to financial statements

**SOMERSET-PULASKI COUNTY
DEVELOPMENT FOUNDATION, INC.**

Statement of Cash Flows
For the Year Ended June 30, 2001

Cash Flows From Operating Activities

Increase (decrease) in net assets	\$ (9,397)
Adjustment to reconcile excess of support and revenue over expenses to net cash provided by operating activities:	
Depreciation	5,869
(Increase) decrease in:	
Interest receivable	(4,922)
Costs in excess of revenue from property transfers	<u>62,093</u>
Net Cash Provided (Used) By Operating Activities	53,643

Cash Flows From Investing Activities

Development costs incurred	(3,103)
Speculative building cost	(9,697)
Proceeds from sale of property	-
Principal repayments on loans made to industries	<u>68,098</u>
Net Cash Provided (Used) By Investing Activities	<u>55,298</u>

Net Increase (Decrease) in Cash and Cash Equivalents 108,941

Cash and Cash Equivalents at July 1, 2000 716,755

Cash and Cash Equivalents at June 30, 2001 \$ 825,696

See accompanying notes to financial statements

**SOMERSET-PULASKI COUNTY
DEVELOPMENT FOUNDATION, INC.**

Notes to the Financial Statements

June 30, 2001

Note 1: Organization

The Somerset-Pulaski County Development Foundation, Inc. assists with the administration of occupational tax revenues through the Pulaski County Fiscal Court, and administers an industry revolving loan fund to carry out its purpose of recruitment and development of industry.

Note 2: Summary of Significant Accounting Policies

Accrual Basis: The financial statements have been prepared on the accrual basis of accounting.

Income Taxes: No provision has been provided for income taxes as the Foundation is recognized as a non-profit corporation under Section 501(c)(6) of the Internal Revenue Code.

Estimates: The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Property and Equipment: Property and equipment are stated at cost less accumulated depreciation. Depreciation is computed by the straight-line method. Expenditures for maintenance and repairs are expensed when incurred and renewals and betterments are capitalized. The related costs and accumulated depreciation are removed from the respective accounts at the time an asset is retired or otherwise disposed of. Any gain resulting is recognized in the current year's income.

Functional Expenses: Expenses are charged directly to program or supporting services in general categories based on specific identification. Indirect expenses have been allocated based on salary expenditures or management's estimates.

Financial Statement Presentation: The Foundation has adopted Statement of Financial Accounting Standards (SFAS) No. 117, *Financial Statements of Not-for-Profit Organizations*. Under SFAS No. 117, the Foundation is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, permanently restricted net assets.

**SOMERSET-PULASKI COUNTY
DEVELOPMENT FOUNDATION, INC.**
Notes to the Financial Statements (Continued)
June 30, 2001

Note 3: Notes Receivable

The balance of the notes receivable is made up of the following notes due from industries at varying interest rates:

Sany Metal	\$ 68,429
CR/PL, L. P.	180,058
Sumerset Houseboats	49,533
Cumberland Millworks	31,970
Lake Cumberland Woodworks	35,075
Bee Lick Manufacturing	150,000
General Electric	<u>150,000</u>
	665,065
Less: Allowance for uncollectible notes receivable	<u>(150,000)</u>
	<u>\$ 515,065</u>

For each year of the ten-year term of the General Electric (GE) note that GE maintains a manufacturing facility at its current location, employing a minimum of an average of 185 people, the payment for that year is deferred without penalty or additional interest. At the conclusion of the ten-year term, any unpaid and/or previously deferred amounts due under the agreement will be forgiven, provided GE has complied with all terms of the agreement. As of June 30, 2001, GE has met all annual requirements.

The note to Cumberland Millworks & Supply will be reclassified as a grant, conditioned upon the company creating 6 full-time jobs within a three-year period, commencing the 30th day of August, 1999. If the conditions are not met, at the conclusion of the three-year period, Cumberland Millworks & Supply will repay the Foundation \$5,328 per job for each new job that was not created and filled within the three-year period.

The note to Lake Cumberland Woodworks, Inc. will be reclassified as a grant, conditioned upon the company creating 6 full-time jobs within a three-year period, commencing the 30th day of August, 1999. If the conditions are not met, at the conclusion of the three-year period, Lake Cumberland Woodworks, Inc. will repay the Foundation \$5,846 per job for each new job that was not created and filled within the three-year period.

**SOMERSET-PULASKI COUNTY
DEVELOPMENT FOUNDATION, INC.**
Notes to the Financial Statements (Continued)
June 30, 2001

Note 4: Cash and Cash Equivalents

The Foundation considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents. Cash and cash equivalents for purposes of the statement of cash flows includes cash deposits in both interest-bearing and noninterest-bearing accounts.

At of June 30, 2001, the carrying amount of the Foundation's deposits was \$825,696, and the banking institution's balance was \$835,983. The difference of \$10,287 results from deposits in transit and outstanding checks. Of the banking institutions' balance, \$240,070 was covered by Federal depository insurance. The remaining balance of \$595,913 was uncollateralized at June 30, 2001.

Note 5: Property and Equipment

Major classifications of these assets are summarized as follows:

Land and development costs	\$2,559,600
Equipment	<u>46,319</u>
	2,605,919
Less: accumulated depreciation	<u>(39,236)</u>
Total property and equipment	<u>\$2,566,683</u>

Depreciation expense was \$5,869 for the year ended June 30, 2001.

Note 6: Designated Cash

Cash in the amount of \$74,826, at June 30, 2001, has been designated for purposes of development of the Valley Oak Commerce Complex.

Note 7: Operational Activities

During the fiscal year ended June 30, 2000, a change was made in the internal accounting functions of the Foundation. Instead of transferring the appropriate portion of the local occupational tax funds to the Foundation, where the related operating expenses were paid, the tax funds were held by county fiscal court, and the expenses were paid by the fiscal court. Currently, all employees of the Foundation are actually considered employees of the fiscal court and participate in the benefits available to other county government employees.

**SOMERSET-PULASKI COUNTY
DEVELOPMENT FOUNDATION, INC.**
Notes to the Financial Statements (Continued)
June 30, 2001

Note 8: Significant Concentrations of Credit Risk

The Foundation's cash and cash equivalents, including designated cash, totals \$825,696 at June 30, 2001. The Foundation has concentrated its credit risk for cash by maintaining the majority of its deposits in two financial institutions. The maximum loss that would have resulted from that risk totaled \$595,913 at June 30, 2001, for the excess of the deposit liabilities reported by the banks over the amounts that would have been covered by federal deposit insurance. Credit risk for notes receivable is concentrated as well because all of the balances are receivable from industries located within the same geographic region.

Note 9: Prior Period Adjustment

One adjustment has been made to unrestricted net assets as of July 1, 2000. The \$45,000 reduction to the beginning unrestricted net assets balance was made to reflect the reclassification of an amount loaned to a local industry as a grant. The reclassification was made, according to the terms of the original agreement, when the industry met all of the requirements that entitled them to have the note receivable reclassified as a grant.

